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The Incidence of Bank Failures: The Statistics, Causes, Procedures, and Potential Reforms

Holly S. Southwick*

The United States has experienced a surge in the number of bank failures in recent years, and the problems in the depository institutions industry are not abating.** During the first quarter of 1987, 54 FDIC-insured commercial banks failed or received assistance to prevent failure, the highest number in a single quarter since 1933. By September 14, 1987, 126 banks had failed and 16 others would have failed had they not received assistance from the FDIC. By October 23, 1987, the number of bank failures had risen to 152 nationwide. The depository institutions industry has also suffered in recent years. During the second quarter of 1987, the nation's commercial banks suffered their worst financial quarter since the FDIC began operating in 1934, due principally to writing off billions of dollars in Third World loans.

This article will examine the numbers and characteristics of the recent bank failures; the causes of the failures; the governmental scheme of financial institution regulation; and finally, the reforms that are being debated in political and financial circles.

Failure Statistics

During the 1920s, banks failed at an average rate of 635 per year.[1] During the four-year period 1930-1933, the period of the three bank crises, banks failed at an average rate of 2,277 per year.[2] Since 1934, however, the rate of bank failures has remained relatively low (Chart 1). Between 1934 and 1942 the annual number of bank failures averaged 54 per year, and between 1943 and 1981 averaged six per year (Table 1). Since 1981, however, bank failures have surged resulting in concern over the stability of the nation's financial system.

Between 1981 and 1983 bank failures averaged 57 per year, and since that period failures have been climbing. During 1984, the number of bank failures rose to 79, and in 1985 rose to 120 (118 insured). Failures in 1986 totaled 144, with an additional 50 thrifts declared insolvent by the Federal Savings and Loan Insurance Corporation (FSLIC). FDIC Chairman L. William Seidman has estimated that the number of bank failures for 1987 will reach 200 failures. During the first quarter of 1987, 54 FDIC-insured commercial banks failed or received assistance to prevent failure.[3] This was the highest number of failures in any

*Holly S. Southwick is currently employed as an Associate Attorney for Fowler and Dangerfield, Salt Lake City, Utah. She served as a Research Assistant at the BEBR until August 1987.

**The term "bank failure" as used in this article refers generally to the failure of an FDIC-insured financial institution. When thrift failures are discussed they will be referred to specifically by the term "thrift failure."

Table 1
Number and Deposits of Banks Closed
Due to Financial Difficulties, 1934-1986
(deposits, thousands of dollars)

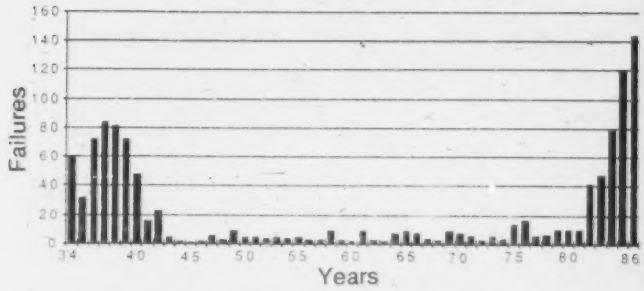
Year	Total Banks	Total Insured	Total Non-Insured	Total Deposits	Total Insured Deposits	Total Non-Insured Deposits
Total[a]	1,011	875	136	36,527,425	36,383,874	143,501
1934	61	9	52	37,333	1,968	35,365
1935	32	26	6	13,988	13,405	583
1936	72	69	3	28,100	27,508	592
1937	84	77	7	34,205	33,677	528
1938	81	74	7	60,722	59,684	1,038
1939	72	60	12	160,211	157,722	2,439
1940	48	43	5	142,788	142,430	358
1941	17	15	2	29,796	29,717	79
1942	23	20	3	19,540	19,185	355
1943	5	5	0	12,525	12,525	0
1944	2	2	0	1,915	1,915	0
1945	1	1	0	5,695	5,695	0
1946	2	1	1	494	347	147
1947	6	5	1	7,207	7,040	167
1948	3	3	0	10,674	10,674	0
1949	9	5	4	9,217	6,665	2,552
1950	5	4	1	5,555	5,513	42
1951	5	2	3	6,464	3,408	3,056
1952	4	3	1	3,313	3,170	143
1953	5	4	1	45,101	44,711	390
1954	4	2	2	2,948	998	1,950
1955	5	5	0	11,953	11,953	0
1956	3	2	1	11,690	11,330	360
1957	3	2	1	12,502	11,247	1,255
1958	9	4	5	10,413	8,240	2,173
1959	3	3	0	2,593	2,593	0
1960	2	1	1	7,965	6,930	1,035
1961	9	5	4	10,611	8,936	1,675
1962	3	1	2	4,231	3,011	1,220
1963	2	2	0	23,444	23,444	0
1964	8	7	1	23,867	23,438	429
1965	9	5	4	45,256	43,861	1,395
1966	8	7	1	106,171	103,523	2,648
1967	4	4	0	10,878	10,878	0
1968	3	3	0	22,524	22,524	0
1969	9	9	0	40,134	40,134	0
1970	8	7	1	55,229	54,806	423
1971	6	6	0	132,058	132,058	0
1972	3	1	2	99,784	20,480	79,304
1973	6	6	0	971,296	971,296	0
1974	4	4	0	1,575,832	1,575,832	0
1975	14	13	1	340,574	339,574	1,000
1976	17	16	1	865,659	864,859	800
1977	6	6	0	205,208	205,208	0
1978	7	7	0	854,154	854,154	0
1979	10	10	0	110,696	110,696	0
1980	10	10	0	216,300	216,300	0
1981	10	10	0	3,826,022	3,826,022	0
1982	42	42	0	9,908,379	9,908,379	0
1983	48	48	0	5,441,608	5,441,608	0
1984	79	79	0	2,883,162	2,883,162	0
1985[b]	120	120	0	8,059,441	8,059,441	0
1986	144	na	na	na	na	na

[a]Total does not include 1986.
[b]Includes data for one bank granted financial assistance although no disbursement was required until January 1986.
na - Not available

Source: 1985 Federal Deposit Insurance Corporation Annual Report, p. 61.

Chart 1

Number of Bank Failures, 1934-86



one quarter since 1933. By mid-September, the number rose to 142 failed or assisted FDIC-insured banks[4], and by October 23, 1987, the number of nationwide failures reached 152.[5]

Dun & Bradstreet Bank Failure Statistics

Beginning in 1984, Dun & Bradstreet (D&B) began tracking business failures in the finance, insurance, and real estate industry (FIRE), in which banking is included. Table 2 shows the number of failures, liabilities, and the failure rate for banking, the FIRE industry, and all businesses in the United States for the three-year period, 1984-1986. The D&B data shows that the number of bank failures has steadily increased over the three-year period, from 100 in 1984 to 157 in 1986. The failure rate for 10,000 listed concerns shows similar increases, from 50 in 1984 to 81 in 1986. In 1984 banking showed a lower rate of failure than did the FIRE industry of which it is a part, 50 failures per 10,000 listed concerns for banking, compared with 67 failures in the FIRE industry. By 1986, however, the rate of bank failures exceeded that of the industry by 17 failures. An additional concern is the significant increase, 158 percent, in the liabilities of failed banks between 1984-1985. This amount declined (27%) between 1985-86, but still remained high at $5,451.4 million.

Utah Failures

Banks

Like the rest of the nation, Utah has experienced an upsurge in bank failures in the last several years. Utah had three bank failures in 1986, Utah First Bank ($33.4 million in deposits), Pioneer State Bank ($8.4 million), and Family Bank ($20.0 million). Utah First Bank's deposit liabilities were assumed by Citibank, a newly-chartered state bank subsidiary of Citicorp, New York. Pioneer State Bank was acquired by Zions First National Bank and was

Table 2
Dun & Bradstreet Failure Data
1984-1986[P]

	Banking	Finance, Insurance & Real Estate (FIRE)	Total U.S. Business Failures
1986[P]			
Number	157	2,771	61,232
Percent Change Previous Year	0.13	0.04	0.07
Liabilities (mil. $)	5,451.4	15,750.3	44,046.0
Percent Change Previous Year	-0.27	0.26	0.19
Failure Rate per 10,000 Listed Concerns	81	64	120
Percent Change Previous Year	0.16	0.03	0.04
1985			
Number	139	2,676	57,253
Percent Change Previous Year	0.39	0.12	0.10
Liabilities (mil. $)	7,495.1	12,539.6	36,937.4
Percent Change Previous Year	1.58	0.47	0.26
Failure Rate per 10,000 Listed Concerns	70	62	115
Percent Change Previous Year	0.40	-0.07	0.07
1984			
Number	100	2,392	52,078
Liabilities (mil. $)	2,909.3	8,550.0	29,268.6
Failure Rate per 10,000 Listed Concerns	50	67	107

[P]preliminary

Source: Business Failure Record. The Dun & Bradstreet Corporation, 1985, pp. 8-9; 1986, pp. 8-9.

reopened as one of its branches. Family Bank's offices were reopened as branches of Commercial Security Bank. Table 3 shows the nature of the depository institutions industry in Utah between June 30, 1982, and June 30, 1986, while Table 4 shows the disposition of Utah financial institutions between 1982 and 1986.

In 1986, Utah ranked 15th in the nation for the largest amount of deposits associated with failed institutions, and ranked 14th highest in the actual number of institutions (Table 5). There were 24 states that had no bank failures in 1986.*

Thrifts

The thrift industry in Utah had been quite profitable until about 1982. Federal law limited the amount of interest banks could pay on deposits, but thrifts were not limited. At the same time, interest rates on loans were high, so thrifts could compete for the lowest risk loans and still make a profit. This enviable position did not last however. Inflation and the value of assets securing loans fell, while deregulation eliminated many bank restrictions. Thrifts found themselves having to pay higher rates for deposits, and in turn having to charge higher rates for their loans. This drove away less-risky borrowers, thus resulting in dramatic increases in loan losses.

In January, 1986, the Utah Legislature passed the "Banking Reform Act of 1986," which in part required Utah's 19 industrial loan corporations to obtain federal deposit insurance by July 1, 1989--to that point the thrifts had been privately insured by the Industrial Loan Guarantee Corporation of Utah. This private insurance fund had been established in 1975 to guarantee deposits in Utah industrial loan corporations. Twelve of the 19 institutions (with $43 million in deposits) either received FDIC insurance or were awaiting approval. Seven of the thrifts failed to qualify, and it has been these institutions that have been the source of the thrift controversy over the past year.

In July 1986, Elaine Weis, then Commissioner of Financial Institutions, issued an order suspending the payment of certain thrift deposits and also placed the private insurer in receivership. The aggregate value of the frozen accounts was estimated to be around $109 million. Although these affected thrifts were stranded rather than failed, later audits showed that two of the thrifts were suffering losses.

The seven stranded thrifts include:
- Interlake Thrift and Loan ($30.5 million in deposits as of June 30, 1986)
- Copper State Thrift and Loan ($24.2 million)
- Commerce Financial ($21.6 million)
- Western Heritage Thrift and Loan ($14.7 million)
- Charter Thrift and Loan ($12.5 million)
- St. George Thrift and Loan ($2.7 million)
- Horizon Thrift and Loan ($2.4 million)

Interlake, Copper, Commerce, Western, and Charter are being liquidated through a liquidation receivership, while St. George and Horizon are still operating with certain restrictions. St. George is in the process of increasing its capital amounts in order to obtain FDIC insurance, while Horizon was purchased by the Utah State Employees Credit Union (effective September 1, 1987).[6]

*States without bank failures in 1986 were Arizona, Arkansas, Connecticut, Delaware, Georgia, Hawaii, Maine, Maryland, Massachusetts, Michigan, Mississippi, Nevada, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia.

Table 3
Utah Financial Institutions, June 30, 1982-86

	June 30, 1986	June 30, 1985	June 30, 1984	June 30, 1983	June 30, 1982
Commercial Banks					
State					
Institution	45	49	53	54	55
Assets (thous. $)	$3,469,794	3,215,215	3,280,003	3,043,810	2,767,418
National					
Institutions	7	6	na	na	na
Assets (thous. $)	$6,452,990	5,911,752	na	na	na
Total Commercial					
Institutions	52	55	na	na	na
Assets (thous. $)	$9,922,784	9,126,967	na	na	na
Savings & Loan Assoc.					
State					
Institutions	10	10	11	11	11
Assets (thous. $)	$4,547,770	4,043,138	4,476,313	3,800,935	3,680,383[a]
Federal					
Institutions	5	5	na	na	na
Assets (thous. $)	$1,145,645[b]	1,348,675	na	na	na
Total S&Ls					
Institutions	15	15	na	na	na
Assets (thous. $)	$5,693,415	5,391,813	na	na	na
Credit Unions					
State					
Institutions	166	179	182	187	195
Assets (thous. $)	$1,721,808	1,440,079	1,262,034	1,148,981	973,568
Industrial Loan Corps					
Total					
Institutions	31	37	48	55	56
Assets (thous. $)	$ 732,896	817,276	758,135	637,064	605,140c
Total					
Institutions	264	286	294	307	317
Assets (thous. $)	$18,070,903	16,776,135	9,776,485	8,630,790	8,026,509

[a]Only the assets of the Kearns, Utah branch totaling $419,611 are indicated, rather than the total assets of Equitable Savings and Loan Association, Portland, Oregon.
[b]Does not include Deseret Federal Savings & Loan Association.
[c]As of Dec. 31, 1982 rather than June 30, 1982.
na - Not available

Source: Report of the Commissioner of Financial Institutions, Utah Office of Financial Institutions, July 1 to June 30, 1983-1985, p. 10; 1986, p. 2a.

Table 4
Disposition of Utah Financial Institutions, 1982-86

	State Banks	Savings and Loans	Credit Unions
1986[a]			
Closures	3	0	na
Dissolution	na	na	7
Mergers	1	na	1
Receiver Appointed	na	1	na
1985			
Closures	1	0	na
Dissolution	na	na	6
Mergers	2	na	2
Receiver Appointed	na	0	na
1984			
Closures	1[b]	1	na
Dissolution	na	na	4
Mergers	2	na	0
Receiver Appointed	na	0	na
1983			
Closures	0	0	na
Dissolution	na	na	5
Mergers	1	na	2
Receiver Appointed	na	0	na
Conversion	na	1	na
1982			
Closures	0	0	na
Dissolution	na	na	5
Merger	1	na	1
Receiver Appointed	na	0	na

[a]Data for 1986 is only through June 30, 1986.
[b]Golden Spike State Bank closed December 6, 1984, and reopened on December 8, 1984 as NuBank Corporation, dba Golden Spike Bank.
na - Not available

Source: Report of the Commissioner of Financial Institutions, Utah Office of Financial Institutions, July 1 to June 30, 1982-83, pp. 17-18, 44, 81; 1983-84, pp. 17-18, 44, 83; 1984-85, pp. 19, 44, 82; 1985-86, pp. 19, 43, 77.

Failure Characteristics

Most of the recent bank failures in the U.S. have involved smaller institutions. In 1984, 75 percent of the failures had deposits of $30 million or less, and averaged $41 million in assets.[7] In 1985, the average size of the failed bank declined to $28 million in assets (ignoring two large savings bank failures). The largest commercial bank to fail in 1985 held assets of $214 million, while the smallest held assets of $2.7 million. Of the 120 banks that failed in 1985, 114 of them had assets under $100 million, the size category used to differentiate large institutions from small ones.

The Northeast, Southeast, and Central regions had the fewest troubled financial institutions and are showing continued improvement. Eastern banks have had fewer credit-quality problems and stronger asset growth, while Western banks have shown increases in their proportion of failures. Western banks are expected to fail at a higher rate throughout 1987 than in the past.[8]

Agricultural banks, banks in which agricultural loans account for 25 percent or more of the total loan portfolio, also account for a large number of the failures. Agricultural loans are those (1) that are secured by farm land, (2) that finance agricultural production, and (3) that are used for other purposes by farmers. In 1985, 62 of the 118 (52.5%) FDIC-insured banks were agricultural banks, while in 1986, 59 of the 138 (42.4%) were agricultural.

List of Problem Banks

The problems in the depository institutions industry do not appear to be subsiding. The FDIC maintains a list of "problem" banks based upon an assessment of their capital, assets, management, earnings, and liquidity (CAMEL rating). This list continues to get longer. In the Spring of 1981, the list had 200 banks on it,[9] in 1983 it registered 369,[10] in March 1985 the list numbered 900,[11] in December 1986 there were 1,484,[12] in March 1987 the number rose to 1,509,[13] and by July 1987, the number hit 1,532.[14] At the end of 1985, approximately 37 percent of the banks on the problem list were agricultural banks.[15]

Causes of Failures

The causes of the recent increases in bank failures are numerous. Many of the causes are basic and have impacted the health of most banks, failed and non-failed, while other causes have been unique to the failed banks, and had they been controlled or eliminated, could have prevented the bank from failing.

Basic Causes with Widespread Impact

Those causes that have impacted most banks, though in varying degrees include:

- General economic conditions
- Deregulation
- The Federal regulatory scheme, including federal deposit insurance coverage
- State regulatory schemes

Table 5
State Ranking for FDIC-Insured Bank Failures
by Deposits and Number of Failures, 1986

Rank by Deposits	State	No.	Deposits (millions of dollars)	Rank by Number	State	No.	Deposits (millions of dollars)
1	Oklahoma	17	$2,267.5	1	Texas	25	$ 911.8
2	Texas	25	911.8	2	Oklahoma	17	2,267.5
3	Florida	3	710.3	3	Kansas	16	254.5
4	Louisiana	9	638.5	4	Iowa	10	259.3
5	California	8	265.3	5	Missouri	10	162.6
6	Iowa	10	259.3	6	Louisiana	9	638.5
7	Kansas	16	254.5	7	California	8	265.3
8	New Mexico	2	169.4	8	Colorado	7	91.0
9	Missouri	10	162.6	9	Wyoming	7	104.9
10	Nebraska	6	145.7	10	Nebraska	6	145.7
11	Tennessee	4	129.3	11	Minnesota	5	107.5
12	Minnesota	5	107.5	12	Tennessee	4	129.3
13	Wyoming	7	104.9	13	Florida	3	710.3
14	Colorado	7	91.0	**14**	**Utah**	**3**	**61.8**
15	**Utah**	**3**	**61.8**	15	Kentucky	2	16.2
16	Idaho	1	54.7	16	New Mexico	2	169.4
17	Alaska	1	48.8	17	Alabama	1	15.6
18	Montana	1	40.5	18	Alaska	1	48.8
19	Wisconsin	1	34.8	19	Idaho	1	54.7
20	Puerto Rico	1	28.2	20	Illinois	1	18.8
21	Illinois	1	18.8	21	Indiana	1	8.
22	Kentucky	2	16.2	22	Montana	1	40.5
23	Alabama	1	15.6	23	Oregon	1	4.2
24	Indiana	1	8.	24	Puerto Rico	1	28.2
25	So Dakota	1	6.3	25	So Dakota	1	6.3
26	Oregon	1	4.2	26	Washington	1	na
	Washington	1	na	27	Wisconsin	1	34.8

na - not available

Source: "FDIC-Insured Banks That Have Failed or Been Rescued in 1986," American Banker, January 6, 1987, pp. 14-20.

General Economic Conditions

The unstable economy of the 1970s and early 1980s has significantly challenged depository institutions. The soaring interest rates and inflation of the late 1960s through early 1980s, as well as recent declines in interest rates and stable inflation, have contributed to the bank failures and losses of recent years. As a result of rising interest rates and spiraling inflation, lending patterns changed and the value of assets securing loans rose. Risk management practices gradually relaxed, and questionable credit risks were obscured by the fast-rising value of assets such as real estate, petroleum, and commodities.[16] As interest rates came down and inflation stabilized, asset values declined, resulting in significant exposure for both borrowers and lenders.

Deregulation

The early to mid-1980s has also been a time of financial deregulation of the banking and thrift industries. Interest rate ceilings on deposits have been lifted, limitations on entry have been eroding, product lines have been expanded, and the acceptance of interstate banking has been widespread. The effect this deregulation has had on the bank failures is hotly debated by the experts.

Some economists believe that deregulation has substantially contributed to recent bank failures. They argue that the heightened competition and greater freedom given bankers has increased and changed the nature of the industry's risk-taking; riskier loans have been made to pay the competitive rates on deposits, while at the same time disinflation has done frightening things to collateral values. Bankers must now operate on a smaller margin of error and the inability of some to do so has had dire results.

Other economists believe that there is no reason why deregulation should alone cause failures--that it is inept management that turns deregulation into a destructive force.[17] Proponents of deregulation argue that enlarged competition promotes innovation that benefits the industry and the public as a whole. They feel that "[b]ank failures, panicky depositors, and puzzled regulators are part of the price exacted by the growth of new and wider financial markets."[18]

The Federal Regulatory Scheme

Commentators cite two weaknesses in the federal regulatory scheme that contribute to high bank failures--full insurance coverage of bank deposits and inadequate bank examination and supervision. Currently the FDIC insurance level for each depositor is $100,000. The original purpose of the insurance scheme was to dissuade depositors from starting senseless runs on sound banks. The reality is that depositors no longer monitor their bank's soundness because they know that the appropriate regulatory agency will pay off any losses if their financial institution should fail. The disinterest of the depositor and the negligible cost of the insurance leaves bankers feeling free to take greater risks--sometimes too great. Some argue the bankers have no incentive to control their own risk exposure.

State Regulatory Scheme

The Federal Home Loan Bank Board (FHLBB), supervisor and director of the system of central banks for savings and loan associations, blames many of the problems in the banking and thrift industries on irresponsible state regulation. The FHLBB claims that many states allow banks and thrifts to engage in risky activities that are prohibited at the federal level, thus contributing to the high rates of bank failure.

Individual Causes with Individual Bank Impact

Those causes that have had a more direct impact on individual banks or banks within a particular region include:

- Mismanagement, including fraud, embezzlement, insider dealing, poor judgment, and capital structure decisions
- Agricultural, energy, and real estate lending
- Foreign lending, especially Latin American debt
- Diversification
- Hidden causes

Mismanagement

The mismanagement category includes a variety of activities, including fraud, embezzlement, insider dealing, and poor management decision-making. It seems U.S. financial institutions are being plagued by an unprecedented epidemic of fraud.[19] The FBI reports that bank fraud, including a range of scams and embezzlements, totaled more than $1.1 billion in 1986, up 30 percent from 1985.[20] Some estimate that once regulators and investigators sort out current fraud-related failures, the losses from frauds perpetrated since 1980 could eventually exceed $12 billion.[21] FBI investigators estimate that losses for

the entire decade of the 1970s reached only $1.5 billion.[22] L. William Seidman, Chairman of the FDIC, has stated that 40 percent of bank failures involve fraud, embezzlement, or other insider dealing and that this has cost the FDIC $500 million in 1986 alone.[23] The practice of insider dealing, and officers and directors acting as though the bank's money is theirs to allocate as they choose, is the most distressful to regulators.[24]

Poor management decision-making has also had an impact on bank failures. A decision to assume more risk in both capital structure and lending can have adverse consequences. The stability of the depository industry depends on its overall level of capital, relative to assets, for a given level of risk. Capital is needed to survive financial shocks that can hit the institution or industry. Lending decisions pertaining to growth, yield, and borrowers are also critical.

All three of Utah's 1986 bank closures were the result of mismanagement and insider dealing by some of the bank's officers and directors. Family Bank became insolvent as a result of embezzlement totally more than twice the bank's entire capital.[25]

Agricultural, Real Estate and Energy Lending

Banks around the nation have been severely impacted by the booms and busts in the agricultural, real estate, and energy sectors. Lending became aggressive as inflation kept land and farm product prices rising, and the oil embargo kept energy prices soaring, but now that inflation has been curbed and oil prices have fallen--banks are finding their portfolios full of poor quality loans. This has had dire effects in those states where agriculture, real estate, and energy, or a combination of the three, is an important part of the state's economy.

There were 289 bank failures in the U.S. between 1982 and 1985, but 70 percent (201) of these failures occurred in ten states that have a high concentration of farming and energy business.[26] As Table 5 indicates, those states whose economies depend on agriculture, real estate, or energy have suffered the highest number of, and more severe failures during 1986. In Texas during 1987, a bank has failed on an average of one every six days. In 1983, the average for Texas was one failed bank every 121 days.[27] A further problem is that even if a bank has been cautious and has limited the percentage of loans it has made to a particular sector, it could still suffer when retailers, homeowners, and others suffer from difficulties in the state's basic industries.

Foreign Lending

Some banks, especially the largest, owe many of their current (and future) problems to foreign loans that will likely go unpaid. The loans were made when deposits were plentiful, interest rates were high, and government officials encouraged loans to lesser-developed countries, especially Latin America.[28] Many banks are now suffering from their past foreign lending practices as they write off as uncollectable billions of dollars in Third World loans.

Diversification

Banks in states and regions whose economies rely upon recently weakened industries, e.g., farming, energy, or real estate, have especially been suffering. Many experts believe that diversification through interstate banking can solve this problem by enabling a bank to limit its risk exposure and thus decrease its chances of failing. The ability to make out-of-state loans and own banks or thrifts in other states allows a bank to protect itself from specific weaknesses in its own economy. As of March 1987, 42 states and the District of Columbia had interstate banking laws (some on both a regional and a national scale), while 30 states give thrift institutions nationwide or contiguous state permission to acquire or merge with in-state savings and loans.

Out-of-state thrifts from 11 states can acquire Utah savings and loans on a reciprocal basis. These states are Alaska, Arizona, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Washington, and Wyoming. The "Banking Reform Act of 1986" opened the State of Utah for full national interstate banking by acquisition of a Utah depository institution after December 31, 1987.

Hidden Causes

L. William Seidman, Chairman of the FDIC, feels that the real challenges facing the banking system are in the international and off-balance-sheet sphere, rather than the more commonly cited real estate defaults, agricultural losses, energy writedowns, and Third World debt.[29] Seidman is concerned about how the banking system will handle the large and growing volume of riskier transactions that include interest rate swaps, currency swaps, options, and letters of credit.

Governmental Regulation of Financial Institutions

There are three primary federal agencies responsible for regulating financial institutions: the Comptroller of the Currency, the Federal Reserve, and the Federal Deposit Insurance Corporation. In addition to these, each state has regulatory authority to examine and supervise state chartered financial institutions.

The Office of the Comptroller was created by the National Bank Act of 1864. It is responsible for chartering, examining, and regulating federal banks. The Federal Reserve was established by the Federal Reserve Act of 1913. It controls a centralized pool of funds for the purpose of lending it to member banks as a "last resort," and is primarily responsible for examining state member banks, plus all bank-holding companies and U.S. activities of foreign banking concerns. All federally chartered banks must be members of the Federal Reserve. The Federal Deposit Insurance Corporation was established by the Federal Reserve Act of 1933 to restore public confidence in the banking system, and it is primarily responsible for examining banks covered by its insurance and state non-Federal Reserve member banks.

Each bank is required to submit quarterly financial reports to the appropriate government agency for examination. A bank examiner's primary task is to determine the "net sound capital" of each institution. A bank's capital is represented by those funds available to absorb losses, to compensate for fluctuations in income, or to meet the demands of creditors in the event of insolvency. The bank examiner will closely scrutinize the bank's loan portfolio since loans of poor quality could create losses that could weaken the bank's capital position. Adversely classified loans will be categorized as substandard, doubtful, or loss loans. The net sound capital figure will then be derived by deducting the amount of "loss loans" and 50 percent of "doubtful loans."

The Uniform Interagency Bank Rating System, adopted by all three federal regulators in 1978, rates "capital adequacy" on a scale from 1 to 5. A "1" or "2" rating is favorable. A "3" rating is below peer average and warrants special supervisory concern and perhaps informal administrative action. A "4" or "5" rating indicates the bank is inadequately capitalized and will be subject to formal administrative action.

Insurance Funds

There are three major depository insurance funds in the nation, the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Share Insurance Fund. In addition to these, there are various private insurance funds.

Federal Deposit Insurance Corporation (FDIC)

Federal Deposit Insurance was authorized by the Banking Act of 1933 and the Banking Act of 1935. It was established to restore confidence in the U.S. banking system, to promote safe banking practices, and to safeguard the deposits entrusted to banks. To meet its broad statutory duty, the FDIC was given supervisory as well as regulatory control over the institutions insured.

The FDIC was originally capitalized with $289 million, of which $150 million was contributed by the federal treasury and $139 million by the Federal Reserve. These monies were repaid in 1948, and since then, the fund has been self-sustaining through assessments and income from investments. Between 1933 and 1982, the FDIC protected over six million depositors in 620 insured bank failures, resulting in a recovery of $19.7 billion, or 98.9 percent of insured and uninsured deposits.[30]

As of June 1987, the FDIC insurance fund stood at $18.4 billion.[31] During the first six months of 1987, the fund increased by $1.7 billion. The sources of this increase were insurance premiums, income on investments, proceeds from the sale of failed banks' assets, and other income. The FDIC fund insures $1.5 trillion in deposits held by 14,800 banks.[32] The FDIC recently calculated it had $1.12 reserves for every $100 deposit it insures, but that figure represents the lowest ratio of reserves to potential liabilities in the FDIC's history (Table 6).[33,34]

National and Federal Reserve member state banks receive insured status almost automatically. They become insured upon authorization to commence business or upon becoming members of the Federal Reserve. Non-member state banks must apply directly to the FDIC for insurance. The FDIC will examine the bank to determine whether its assets in excess of capital requirements are adequate to meet all of its liabilities to depositors and other creditors. The FDIC will also consider the bank's

Table 6
Federally Insured Deposits
and the Federal Deposit Insurance Corporation Fund, 1966-85

Year Dec. 31	Insurance Coverage (thous.)	Total Deposits in Banks (mil. $)	Total Insured Deposits (mil. $)	Percent of Insured Deposits to Total	Deposit Insurance Fund (mil. $)	Ratio of Insurance Deposits	Ratio of Insurance Deposits
1985	100	1,974,512	1,503,393	76.1	17,956.9	0.91	1.19
1984	100	1,806,520	1,389,874	76.9	16,529.4	0.91	1.19
1983	100	1,690,576	1,268,332	75.0	15,429.1	0.91	1.22
1982	100	1,544,697	1,134,221	73.4	13,770.9	0.89	1 21
1981	100	1,409,322	988,898	70.2	12,246.1	0.87	1.24
1980	100	1,324,463	948,717	71.6	11,019.5	0.83	1.16
1979	40	1,226,943	808,555	65.9	9,792.7	0.80	1.21
1978	40	1,145,835	760,706	66.4	8,796.0	0.77	1.16
1977	40	1,050,435	692,533	65.9	7,992.8	0.76	1.15
1976	40	941,923	628,263	66.7	7,268.8	0.77	1.16
1975	40	875,985	569,101	65.0	6,716.0	0.77	1.18
1974	40	833,277	520,309	62.4	6,124.2	0.73	1.18
1973	20	766,509	465,600	60.7	5,615.3	0.73	1.21
1972	20	697,480	419,756	60.2	5,158.7	0.74	1.23
1971	20	610,685	374,568	61.3	4,739.9	0.78	1.27
1970	20	545,198	349,581	64.1	4,379.6	0.80	1.25
1969	20	495,858	313,085	63.1	4,051.1	0.82	1.29
1968	15	491,513	296,701	60.4	3,749.2	0.76	1.26
1967	15	448,709	261,149	58.2	3,485.5	0.78	1.33
1966	15	401,096	234,150	58.4	3,252.0	0.81	1.39

Source: 1985 Federal Deposit Insurance Corporation Annual Report, p. 70.

financial history, its future earnings prospects, the general character of its management, and the convenience and needs of the community served by the bank.

With the passage of the Garn-St. Germain Act in October 1982, Congress expanded the authority of the FDIC by allowing it to provide assistance to all FDIC-insured banks to prevent the closing of such banks. The prior policy had been to provide such assistance only if the continued operation of the bank was essential to provide adequate banking service in the community.

Federal Savings & Loan Insurance Corporation (FSLIC)

The FSLIC is a government insurance agency that was created by the National Housing Act of 1934. The FHLBB, an independent federal regulatory agency established by the Federal Home Loan Bank Act of 1932, oversees the operations of the FSLIC. Through the FSLIC, each insured saver's account is guaranteed up to a maximum of $100,000 per account.

The FSLIC fund has been a source of concern and controversy recently. The fund is capitalized by

assessments from thrift institutions, but has been operating in the red. The General Accounting Office, an auditing arm of the U.S. Congress, has indicated that a recent review shows that the fund is operating at a $3 billion deficit.[35]

On August 10, 1987, President Reagan signed into law the Competitive Equality Banking Act of 1987. The legislation provides $10.8 billion for recapitalization of the FSLIC, requires regulators to give troubled thrifts more time to work out financial problems, closes the nonbank-bank loophole, and sets a moratorium on new powers for commercial banks. Additional reforms in the financial services industry are expected in the next legislative session.

National Credit Union Administration (NCUA)

Credit unions came to the United States in 1909 from Germany, and in 1934 Congress created the Federal credit union system. The National Credit Union Administration, with its National Credit Union Share Insurance Fund, was created during the 1970s. The financially healthy National Credit Union Share Insurance Fund guarantees depositors for up to $100,000 at 15,163 federal and state-chartered credit unions (Table 7).

Table 7
Natural Person Federal Credit Unions Experiencing Losses, 1981-86

Year Ending Dec 31	No. of Federal Credit Unions	Number Experiencing Losses	Percentage of Total	Amount of Loss (thous. $)
1986	9,758	1,360	13.9	$43,805
1985	10,125	1,178	11.6	31,604
1984	10,547	1,041	9.9	18,555
1983	10,963	2,443	22.3	45,434
1982	11,631	2,572	22.1	63,098
1981	11,969	2,561	21.4	82,735

Source: 1986 National Credit Union Administration Annual Report, p. 36.

FDIC Failure Procedure *

When an FDIC-insured bank fails or when the FDIC is appointed receiver of a bank closed by a national or state banking authority, the FDIC has the responsibility of determining what is the best action to take to protect the banking system, depositors, and the FDIC Deposit Insurance Fund.** The FDIC has essentially four options:

1) Direct financial assistance to the troubled bank to prevent closing or to restore a closed bank to normal operations;

2) A deposit payoff, i.e. pay off deposits and close the institution (uninsured depositors share in the loss);

3) A purchase and assumption transaction (P&A), i.e., enter into a merger--the sick bank into a healthy partner (no depositor loses anything); and

4) Organization of a new national bank to temporarily assume the insured deposits of the closed bank.

The FDIC has rarely infused capital into a troubled bank, option one, or organized a new national bank, option four. P&A transactions have been the FDIC's favored choice (Tables 8 and 9). The FDIC estimated $59 million was saved in 1984 by utilizing the P&A procedure.[36]

In a P&A transaction, the acquiring bank assumes all of the failed bank's deposit liabilities and purchases some of its assets. The cash payment from the FDIC equals the liabilities of the failed bank, less the value of the assets of the failed bank purchased by the bank with the winning bid, less the purchase premium bid by the bank.

The P&A transaction is considered preferable to a deposit payoff because:

1) The depositors and creditors of the failed bank are protected up to the full amount of their deposits and claims against the bank.

2) The FDIC, as insurer, does not have to pay off the numerous account holders.

*Procedures for the FSLIC and the NCUA are similar to the FDIC procedure, with minor differences. Only the FDIC procedure will be discussed in this article.

**A commercial bank is officially declared a failed bank by its chartering agency, the Comptroller of the Currency for a national bank and the state banking authority for a state-chartered bank.

3) The failed bank is reopened immediately or never closed, thus preventing panic and inconvenience to depositors.

4) The FDIC is in a better position to recover its costs when it is a "purchaser" of assets rather than a subrogee of the rights of the depositors.

5) The FDIC, as receiver, obtains the going concern value of the bank, which is higher than the bank's liquidation value.

Table 8
FSLIC Case Activity, 1985

Action	No. of Cases	Assets
Assisted Acquisition and Rehabilitation	23	$ 4.3 billion
Mergers	14	
Acquisition by holding company	3	
Acquisition by investor group	5	
Rehabilitation	1	
Management Consignment Program	23	$15.7 billion
Liquidation	10	
Cash-backed transfer of accounts	6	
Asset-backed transfer of accounts	2	
Cash payout to depositors	2	$ 2.2 billion
Total	56	$22.2 billion

Source: 1985 Federal Home Loan Bank Board Annual Report, p. 27.

Although the FDIC favors a purchase and assumption resolution, this route cannot be taken unless it is less costly than the deposit payoff liquidation (least cost test), or the bank is essential to provide adequate banking services to the community.

It is clear that the P&A transaction is more advantageous than the other methods of failure resolution, but the technique is criticized because the public's perception of the banking insurance system has been altered. The P&A essentially ignores the statutory insurance limit of $100,000 and provides 100 percent coverage for all deposits. This result eliminates the incentive of large depositors to monitor the activities and health of their financial institutions. Another weakness is that the use of the P&A increases with the size of the bank, thus large depositors in large banks receive more protection that large depositors in small banks.

Table 9
Disposition of FDIC Cases Requiring Disbursements, 1934 - 1985

Year	Number of Banks	Deposit Payoff Cases	Percent of Total	Deposit Assumption Cases	Percent of Total
Total	867	373	43.0	494	57.0
1985	120	29	24.2	91	75.8
1984	79	16	20.3	63	79.7
1983	48	9	18.8	39	81.3
1982	42	7	16.7	35	83.3
1981	10	2	20.0	8	80.0
1980	10	3	30.0	7	70.0
1979	10	3	30.0	7	70.0
1978	7	1	14.3	6	85.7
1977	6	0	0.0	6	100.0
1976	16	3	18.8	13	81.2
1975	13	3	23.1	10	76.9
1974	4	0	0.0	4	100.0
1973	6	3	50.0	3	50.0
1972	1	1	100.0	0	0.0
1971	6	5	83.3	1	16.7
1970	7	4	57.1	3	42.9
1969	9	4	44.4	5	55.5
1968	3	0	0.0	3	100.0
1967	4	4	100.0	0	0.0
1966	7	1	14.3	6	85.7
1961-1965[a]	19	17	89.5	2	10.5
1956-1960	11	9	81.8	2	18.2
1951-1955	14	4	28.6	10	71.4
1946-1950	17	0	0.0	17	100.0
1940-1945	43	19	44.2	24	55.8
1936-1940	321	193	60.1	128	39.9
1935	25	24	96.0	1	0.00
1934	9	9	1.00	0	0.00

[a]No case in 1962 required disbursements.

Source: 1985 Federal Deposit Insurance Corporation Annual Report, p. 68.

Before 1982, all large banks (deposits in excess of $100 million) that were closed because of financial difficulty were settled with a P&A transaction. With the 1982 deposit payoff settlement of the PennSquare Bank of Oklahoma City ($470 million), the FDIC's settlement policy became a little uncertain. There are four factors that contribute to the FDIC's bias in favor of merger settlements for large banks:

1) The premium price paid to acquire the failed bank's charter is ordinarily large enough to make the merger cheaper than a deposit payoff.

2) Larger banks have a greater proportion of their liabilities in uninsured deposits.

3) Deposit payoffs are more difficult with large banks because of the large immediate cash outlay required of the FDIC.

4) The FDIC's concern over the impact on healthy banks from the closure of an unhealthy one, especially a large one.[37]

In December 1983, the FDIC announced a new procedure to dispose of bank assets and deposit liabilities. This procedure, the "modified payout," was adopted to give the FDIC greater flexibility in minimizing the disruption in banking services, while at the same time exposing uninsured depositors to some risk of loss on their deposits. The first bank failure to be handled by the new procedure occurred in March 1984.

Potential Reforms

The increase in the number of financial institution failures across the nation has sparked debate over various reforms that could help prevent future failures and strengthen the overall banking system. Considerations that must be kept in mind when weighing proposals for reform are: (1) protecting the stability of the money supply by preventing runs on banks; (2) keeping the government's responsibility commensurate to its risk liability; and (3) promoting maximum efficiency in the financial system. There are a variety of proposed reforms: (1) establish risk-related insurance premiums, (2) change capital requirements, (3) modify payouts to uninsured depositors, (4) allow interstate banking, (5) improve public disclosure, (6) increase penalties for officers and directors, (7) increase the risk of junior creditors, (8) change auditing requirements, (9) improve bank examination, (10) merge the regulatory agencies, and (11) curb state banking powers.

Establish Risk-Related Insurance Premiums

Establishing a bank's deposit insurance premiums on the riskiness of its operations has long been a serious reform proposal. Federal deposit insurance was intended to protect small, unsophisticated investors, not those in a position to protect themselves or who wish to have their speculative activities financed by a government agency.

Proponents of the risk-related insurance premium argue that a constant insurance assessment (1/12th of 1% of total deposit liabilities annually) fails to penalize banks that pose a higher risk to the insurance fund. They feel that fixed premiums actually encourage banks to incur more risk because the insurer bears the loss, while the bank reaps the potential benefits.

Opponents of this reform argue that calculating risk-related premiums would be too difficult, and that doing so would undermine public confidence in the banking system. They feel such a policy would destabilize the banking system by forcing the private sector to speculate on the health of banks, thus creating the risk of foolish runs on healthy institutions.

The FDIC favors a risk-related premium system, but does not believe that risk can be measured accurately enough to set insurance premiums. The FDIC feels however that fairness dictates that some moderate differential in premiums should exist to penalize banks that refuse to conform their policies to acceptable banking behavior.

Change Capital Requirements

All other things equal, a depository industry funded with more capital relative to assets will experience fewer failures, will be more stable, and will be less likely to threaten the depository insurance funds than one with less capital. In addition, the only private individuals who can be relied upon to seriously monitor a bank's safety are those with an economic stake in its financial condition, its owners. Bank owners can be forced to assume more risk in three ways: (1) increase equity capital adequacy requirements, (2) impose double liability on shareholders, or (3) force problem banks to close before they exhaust their economic net worth.

Some experts argue that mandating increases in equity capital can hamper a bank's ability to compete, and that pressuring owners to bear a higher risk of loss can backfire and result in owners pressuring management to take more risks for profitability.[38] In addition, they claim that significantly changing capital requirements could make issuing new stock difficult.

Modify Payouts to Uninsured Depositors

Modifying the payouts to uninsured depositors in failed institutions is an additional reform that could be utilized to bring more discipline to the depository industry. Banking history has shown that uninsured depositors enjoy the same federal protection as insured depositors. The FDIC's practice of utilizing the P&A transaction has eliminated any incentive large depositors might otherwise have to ensure the safety of their banks. Others argue, however, that big depositors may not be sophisticated enough to impose market discipline in an orderly manner, and that making any depositor vulnerable raises the risk of a bank panic.

Allow Interstate Banking

Diversification through interstate banking is yet another reform that experts propose as a way to reinforce bank safety and soundness. As was discussed above, the ability to make out-of-state loans and own banks or thrifts in other states allows a bank to protect itself from specific weaknesses in its own state or regional economy. As of March 1987, 42 states and the District of Columbia have interstate banking laws (some on both a regional and national scale), while 30 states give thrift institutions nationwide or contiguous state permission to acquire or merge with in-state savings and loans.

Improve Public Disclosure

The FDIC believes that increasing the amount of public disclosure of bank information could enhance the ability of the market to control bank behavior. The FDIC has developed a policy statement setting forth minimum standards for bank disclosure. The policy also encourages uninsured depositors to request additional information when banks do not comply with the disclosure standard. The FDIC is also considering publishing in the Federal Register statutory enforcement actions against banks.

Increase Penalties for Officers and Directors

Increasing the penalties for officers and directors of failed institutions offers an additional source of discipline. Federal regulators must continue to make directors realize their full potential in the regulatory process. Recently the government has begun assigning multi-million dollar fines on bankers whose negligent or criminal conduct causes costly failures.

Increase the Risk of Junior Creditors

Subordinated bank creditors provide the FDIC a protective cushion in the case of failure. By increasing capital adequacy requirements and requiring that a portion of the capital be subordinated debt, an incentive to monitor banking practices is created. Subordinated creditors generally have both the ability and incentive to monitor a bank's risk-taking behavior.

Change Auditing Requirements

The FDIC is considering requiring community banks to subject their financial statements to external audits because of the growing role of internal fraud in banks. In addition, more work in the area of bank failure prediction could provide warning signals to regulators to stop risky activities before it is too late to save the institution from failure.

Improve Bank Examination

Improving the government's corp of bank examiners is another way to make the banking system more sound. This includes (1) increasing the number of examiners, (2) making compensation competitive with the private sector to prevent the adverse effects of high employment turnover, and (3) making examination procedures more sophisticated.

Merge the Regulatory Agencies

William M. Isaac, former Chairman of the FDIC, feels that merging the FDIC and the FSLIC might provide more stability to the financial system.[39] Some feel this alternative would be a crutch rather than a solution to current regulatory problems.

Curb State Banking Powers

Some experts feel that state banking powers should be curbed, thus reining in the wide ranging activities of state-chartered financial institutions.

Conclusion

Bank failure statistics indicate that the challenges in the financial institutions industry are not yet over. Banks continue to fail at rates higher than were experienced during the Great Depression. The causes of the failures are more evident than the courses of action that should be taken to ensure continued stability of the nation's financial system. Strong debate rages over the reforms that should be

adopted. Steps were taken to strengthen the FSLIC and change various regulatory procedures in the Competitive Equality Banking Act of 1987, but additional reforms are needed.

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Utah Business Statistics

UTAH DATA	July 1986	July 1987	% Change From Year Ago	12 Month Average This Year	12 Month Average Last Year	12 Month Average % Change
Total Personal Income (seasonally adjusted) (mil. of dol.) (qtly.)	18,340[r]	NA	NA	NA	18,047	NA
New Corporations (no.)	574	447	-22.1%	442	475	-6.9%
New Car, Truck and Motorhome Sales (no.)	6,369	NA	NA	NA	6,265	NA
Agriculture						
Average Prices Recorded by Farmers (dol.)						
Beef Steers and Heifers (cwt) (thous.)	55.50	63.50	14.4%	60.70	54.07	12.3%
Lambs (cwt)	66.20	74.80	13.0%	70.82	64.88	9.1%
Milk Wholesale (cwt)	11.10	11.40	2.7%	12.03	11.63	3.4%
Alfalfa Hay, Baled (per ton)	66.00	71.00	7.6%	64.67	70.14	-7.8%
Cattle Slaughtered (live weight) (thous. of lbs.)	40,053	45,148	12.7%	39,686	35,834	10.7%
Construction						
Total Construction (thous. of dol.) [1]	127,666	166,466	30.4%	127,145	136,269	-6.7%
Residential	72,996	62,008	-15.1%	57,395	59,066	-2.8%
Nonresidential	41,231	45,825	11.1%	39,027	50,258	-22.3%
Public Works and Utilities	13,439	58,633	336.3%	30,723	27,188	13.0%
Total Permit Construction (thous. of dol.) [2]	124,445.1	96,045.6	-22.8%	98,824.1	121,750.6	-18.8%
Residential	73,320.0	48,270.7	-34.2%	50,473.0	63,797.0	-20.9%
Nonresidential	36,882.8	31,761.0	-13.9%	34,895.5	43,804.7	-20.3%
Additions, Alterations and Repairs	14,242.3	16,013.9	12.4%	13,452.6	13,672.4	-1.6%
New Dwelling Units (no.)	1,437	663	-53.9%	793	1,306	-39.3%
Employment						
Civilian Labor Force (thous.)	755.9[r]	754.6	-0.2%	761.9	753.1	1.2%
Total Employed Persons	711.2[r]	707.2	-0.6%	712.9	710.3	0.4%
Unemployed Persons	44.6[r]	47.4	6.3%	48.9	42.4	15.5%
Percent Total Labor Force	5.9[r]	6.3	6.8%	6.4	5.6	14.7%
Employees on Nonagricultural Payrolls (thous. of jobs)	629.9[r]	637.9	1.3%	638.8	632.9	0.9%
Manufacturing	92.7[r]	94.1	1.5%	91.5	93.8	-2.4%
Mining	6.9[r]	7.9	14.5%	8.1	8.6	-6.1%
Contract Construction	34.9[r]	29.8	-14.6%	30.3	35.1	-13.6%
Transportation, Communication and Utilities	37.6[r]	37.9	0.8%	37.5	37.0	1.4%
Wholesale Trade	36.5[r]	36.7	0.5%	36.3	35.8	1.2%
Retail Trade	117.1[r]	119.6	2.1%	118.8	115.1	3.2%
Finance, Insurance and Real Estate	33.1[r]	34.2	3.3%	33.6	32.2	4.3%
Services [3]	137.6[r]	144.6	5.1%	140.9	135.3	4.1%
Federal Government	40.8[r]	39.7	-2.7%	40.3	40.1	0.4%
State Government [4]	36.1[r]	34.9	-3.3%	37.4	37.1	1.0%
Local Government [4]	56.6[r]	58.5	3.4%	64.1	62.8	2.2%
Average Weekly Hours						
Manufacturing	39.9[r]	40.3	1.0%	39.7	40.4	-1.8%
Mining	40.1[r]	41.2	2.7%	42.1	44.1	-4.6%
Wholesale Trade	36.9[r]	39.3	6.5%	38.0	35.8	6.2%
Retail Trade	28.9[r]	29.0	0.3%	28.3	28.1	0.8%
Amount of Unemployment Compensation (thous. of dol.)	7,251.0	6,282.3	-13.4%	8,812.4	7,763.0	13.5%
Finance						
Savings, Savings and Loan Association (mil. of dol.)	2,383.8	2,470.4	3.6%	2,432.9	2,346.4	3.7%
Tax Collections by the State of Utah (thous. of dol.)						
Total Tax Collections	43,871.7	56,443.4	28.7%	130,578.7	125,562.9	4.0%
Sales and Use Tax	8,419.8	13,085.4	55.4%	46,931.6	45,444.1	3.3%
Motor Fuel Tax	6,588.5	2,417.3	-63.3%	7,984.2	7,763.6	2.8%
Individual Income Tax	15,859.1	24,384.0	53.8%	45,131.5	37,599.0	20.0%
Corporation Franchise Tax	2,473.6	4,556.2	84.2%	5,247.5	5,594.1	-6.2%
Production						
Net Electric Power Utilized (mil. of kwh)	1,037.8	NA	NA	NA	1,106.4	NA
Crude Oil to Refineries (thous. of bbls.)	4,040.8	4,065.0	0.6%	3,920.3	3,697.0	6.0%
Crude Oil (thous. of bbls.)	3,237.1	3,023.9	-6.6%	3,027.5	3,441.8	-12.0%
Natural Gas (mil. of cu. ft.)	18,333.2	21,718.1	18.5%	20,458.1	18,821.3	8.7%
Coal (thous. short tons)	896.0	1,250.0	39.5%	954.1	1,083.4	-11.9%
Tourism/Travel						
Air Passengers (total no. on and off) (S.L. Int'l Airport)	921,754	1,010,460	9.6%	840,812	793,569	6.0%
Highway Traffic Count Across State Lines	51,949	51,815	-0.3%	38,134	35,022	8.9%
Transient Room Taxes (thous. of dol.)	86.2	559.5	549.1%	476.6	467.7	1.9%
Visits, State, Nat'l. Parks, Monuments (thous.)	2,284.9	2,242.0	-1.9%	1,027.5	981.4	4.7%
Utilities						
Telephone Lines in Service (Mt. Bell) (Residential)	468,847	477,566	1.9%	476,966	468,043	1.9%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	168,119	175,914	4.6%	172,864	166,701	3.7%
Electric Customers (Residential)	459,799	469,772	2.2%	468,172	NA	NA
Electric Customers (Commercial)	45,420	46,201	1.7%	45,977	NA	NA
Natural Gas Customers (Residential & Commercial)	430,625	442,329	2.7%	442,368	430,222	2.8%
Natural Gas Customers (Industrial)	566	557	-1.6%	562	568	-1.1%

Utah Business Statistics

UTAH DATA	July 1986	July 1987	% Change From Year Ago	12 Month Average This Year	12 Month Average Last Year	12 Month Average % Change
Davis County						
Non-Ag. Employment (thous.)	54.0[r]	54.4[fo]	0.7%	53.3	53.2	0.1%
Unemployment Rate	4.6[r]	5.5	19.6%	5.2	4.0	30.0%
Auth. Permit Construction (thous. of dol.)	19,112.4	9,364.5	-51.0%	14,291.8	16,698.0	-14.4%
New Dwelling Units (no.)	219	87	-60.3%	130	241	-46.2%
Postal Receipts (thous. of dol.)	312.7	310.7	-0.6%	NA	322.7	NA
Electric Customers (Residential)	45,138	47,374	5.0%	46,551	39,918	16.6%
Electric Customers (Commercial)	3,365	3,285	-2.4%	3,258	2,952	10.4%
Natural Gas Customers (Residential)	45,827	48,585	6.0%	47,966	45,364	5.7%
Natural Gas Customers (Industrial)	51	52	2.0%	52	51	2.5%
Telephone Lines in Service (Mt. Bell)(Residential)	53,139	55,189	3.9%	54,326	51,489	5.5%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	10,148	10,663	5.1%	10,364	9,895	4.7%
Salt Lake County						
Non-Ag. Employment (thous.)	328.5[r]	335.1[fo]	2.0%	334.0	328.5	1.7%
Unemployment Rate	5.2[r]	5.4	3.8%	5.5	5.6	-1.7%
Auth. Permit Construction (thous. of dol.)	55,538.7	44,939.8	-19.1%	47,952.2	62,061.9	-22.7%
New Dwelling Units (no.)	772	216	-72.0%	328	587	-44.1%
Postal Receipts (thous. of dol.)	6,299.0	6,222.3	-1.2%	7,049.7	7,404.7	-4.8%
Electric Customers (Residential)	229,864	235,524	2.5%	234,536	228,364	2.7%
Electric Customers (Commercial)	19,337	19,981	3.3%	19,695	18,996	3.7%
Natural Gas Customers (Residential)	210,564	215,558	2.4%	215,829	209,707	2.9%
Natural Gas Customers (Industrial)	260	240	-7.7%	248	259	-4.2%
Telephone Lines in Service (Mt. Bell)(Residential)	222,095	226,175	1.8%	225,283	220,342	2.2%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	107,750	110,001	2.1%	109,137	107,151	1.9%
Utah County						
Non-Ag. Employment (thous.)	70.4[r]	70.5[fo]	0.1%	72.0	71.7	0.4%
Unemployment Rate	5.3[r]	6.7	26.4%	7.5	6.0	24.1%
Auth. Permit Construction (thous. of dol.)	12,035.2	15,164.1	26.0%	11,446.6	10,782.5	6.2%
New Dwelling Units (no.)	182	113	-37.9%	96	106	-9.0%
Postal Receipts (thous. of dol.)	794.3	798.3	0.5%	928.1	916.8	1.2%
Electric Customers (Residential)	49,148	50,451	2.7%	50,356	NA	NA
Electric Customers (Commercial)	6,221	6,275	0.9%	6,334	NA	NA
Natural Gas Customers (Residential)	58,817	59,342	0.9%	60,040	59,155	1.5%
Natural Gas Customers (Industrial)	73	68	-6.8%	72	71	1.3%
Telephone Lines in Service (Mt. Bell)(Residential)	60,093	61,027	1.6%	62,378	61,726	1.1%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	15,881	18,534	16.7%	17,508	15,456	13.3%
Weber County						
Non-Ag. Employment (thous.)	60.3[r]	60.9[fo]	1.0%	60.3	58.7	2.6%
Unemployment Rate	7.2[r]	7.8	8.3%	7.0	5.7	22.8%
Auth. Permit Construction (thous. of dol.)	9,544.6	8,451.8	-11.4%	9,228.4	8,457.5	9.1%
New Dwelling Units (no.)	82	106	29.3%	75	98	-23.7%
Postal Receipts (thous. of dol.)	559.5	530.9	-5.1%	622.6	606.5	2.7%
Electric Customers (Residential)	51,788	52,736	1.8%	52,471	51,305	2.3%
Electric Customers (Commercial)	4,737	4,822	1.8%	4,795	4,702	2.0%
Natural Gas Customers (Residential)	47,542	48,564	2.1%	48,725	47,556	2.5%
Natural Gas Customers (Industrial)	87	86	-1.1%	85	87	-1.5%
Telephone Lines in Service (Mt. Bell)(Residential)	45,280	45,987	1.6%	45,734	45,246	1.1%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	10,564	11,026	4.4%	10,751	10,530	2.1%

[r] Revised [na] Not available [fo] Forecast

Sources:

Personal Income:	Bureau of Economic Analysis, U.S. Department of Commerce
New Corporations:	Utah Secretary of State
New Car and Truck Sales:	Utah State Tax Commission, Economic and Statistical Unit
Agriculture:	U.S. Department of Agriculture, Agriculture, Utah: Utah Crop and Livestock Reporting Service
Construction Data:	F.W. Dodge Statistics and Utah Construction Report, Bureau of Economic and Business Research
Employment Data:	Utah Department of Employment Security
Savings Information:	Utah Savings and Loan Institutions
Tax Collections:	Utah State Tax Commission
Net Electric Power Utilized:	Cooperating Utah power companies
Crude Oil Production:	Area oil refineries
Natural Gas Production:	Utah Department of Oil, Gas, and Mining
Coal Production:	U.S. Department of Energy
Air Passengers:	Salt Lake City International Airport, Statistics Division
Highway Traffic Count:	Utah Department of Transportation
Visits to State and National Parks and Monuments:	U. S. Forest Service, Utah State Parks and Recreation Department
Utilities Data:	Cooperating Utah utility companies
Postal Receipts:	Postmasters in Davis, Salt Lake, Utah, and Weber Counties

Footnotes:

1 Obtained from F.W. Dodge Statistics
2 Obtained from Utah Construction Report
3 Includes services by nonprofit and religious institutions
4 Includes public schools and college institutions

Utah Business Statistics

UTAH DATA	August 1986	August 1987	% Change From Year Ago	12 Month Average This Year	12 Month Average Last Year	12 Month Average % Change
Total Personal Income (seasonally adjusted) (mil. of dol.) (qtly.)	18,340[r]	NA	NA	NA	18,106.5	NA
New Corporations (no.)	347	433	24.8%	450	465	-3.3%
New Car, Truck and Motorhome Sales (no.)	6,807	NA	NA	NA	6,204	NA
Agriculture						
Average Prices Recorded by Farmers (dol.)						
Beef Steers and Heifers (cwt) (thous.)	57.20	64.10	12.1%	61.28	54.68	12.1%
Lambs (cwt)	66.00	72.30	9.5%	71.34	64.81	10.1%
Milk Wholesale (cwt)	11.40	11.70	2.6%	12.06	11.65	3.5%
Alfalfa Hay, Baled (per ton)	64.00	66.00	3.1%	64.83	70.48	-8.0%
Cattle Slaughtered (live weight) (thous. of lbs.)	37,276	44,303	18.9%	40,271	35,912	12.1%
Construction						
Total Construction (thous. of dol.) [1]	125,329	92,252	-26.4%	124,388	129,655	-4.1%
Residential	63,013	55,997	-11.1%	56,810	58,517	-2.9%
Nonresidential	44,730	27,605	-38.3%	37,600	48,302	-22.2%
Public Works and Utilities	17,586	8,650	-50.8%	29,978	23,078	29.9%
Total Permit Construction (thous. of dol.) [2]	129,584.5	100,335.2	-22.6%	96,386.7	121,374.3	-20.6%
Residential	74,404.0	45,583.1	-38.7%	48,071.2	64,029.4	-24.9%
Nonresidential	30,496.9	28,906.1	-5.2%	34,763.0	42,855.5	-18.9%
Additions, Alterations and Repairs	24,647.6	25,846.0	4.9%	13,552.5	14,510.0	-6.6%
New Dwelling Units (no.)	1,150	656	-43.0%	752	1,274	-41.0%
Employment						
Civilian Labor Force (thous.)	758.7[r]	755.6	-0.4%	761.6	753.2	1.1%
Total Employed Persons	715.5[r]	709.6	-0.8%	712.4	710.1	0.3%
Unemployed Persons	43.2[r]	46.0	6.5%	49.2	42.7	15.1%
Percent Total Labor Force	5.7[r]	6.1	7.0%	6.5	5.7	14.5%
Employees on Nonagricultural Payrolls (thous. of jobs)	631.4[r]	639.9	1.3%	639.5	633.5	0.9%
Manufacturing	91.7[r]	94.4	2.9%	91.7	93.3	-1.7%
Mining	6.9[r]	7.9	14.5%	8.2	8.4	-3.1%
Contract Construction	35.1[r]	29.6	-15.7%	29.9	34.7	-13.9%
Transportaion, Communication and Utilities	37.7[r]	37.9	0.5%	37.6	37.1	1.3%
Wholesale Trade	36.4[r]	36.7	0.8%	36.3	35.9	1.3%
Retail Trade	118.2[r]	120.6	2.0%	119.0	115.5	3.0%
Finance, Insurance and Real Estate	33.4[r]	34.1	2.1%	33.6	32.3	3.9%
Services [3]	138.1[r]	145.4	5.3%	141.5	136.0	4.1%
Federal Government	40.9[r]	39.7	-2.9%	40.2	40.2	-0.2%
State Government [4]	35.9[r]	35.2	-1.9%	37.4	37.3	0.2%
Local Government [4]	57.0[r]	58.3	2.3%	64.2	62.7	2.4%
Average Weekly Hours						
Manufacturing	40.4[r]	40.7	0.7%	39.7	40.4	-1.7%
Mining	39.0[r]	40.9	4.9%	42.2	43.6	-3.1%
Wholesale Trade	37.9[r]	39.3	3.7%	38.1	35.9	6.0%
Retail Trade	28.9[r]	29.5	2.1%	28.3	28.0	1.0%
Amount of Unemployment Compensation (thous. of dol.)	6,267.3	5,654.1	-9.8%	8,761.3	7,819.7	12.0%
Finance						
Savings, Savings and Loan Association (mil. of dol.)	2,395.1	2,453.0	2.4%	2,437.7	2,347.4	3.8%
Tax Collections by the State of Utah (thous. of dol.)						
Total Tax Collections	179,146.8	200,943.8	12.2%	132,395.1	124,907.3	6.0%
Sales and Use Tax	69,238.8	71,894.1	3.8%	47,152.9	45,245.8	4.2%
Motor Fuel Tax	7,930.5	9,056.5	14.2%	8,078.0	7,598.0	6.3%
Individual Income Tax	65,021.2	82,248.2	26.5%	46,567.1	37,839.7	23.1%
Corporation Franchise Tax	1,620.9	1,503.2	-7.3%	5,237.7	5,637.0	-7.1%
Production						
Net Electric Power Utilized (mil. of kwh)	1,207.2	NA	NA	NA	1,107.8	NA
Crude Oil to Refineries (thous. of bbls.)	4,045.3	3,874.5	-4.2%	3,906.1	3,677.1	6.2%
Crude Oil (thous. of bbls.)	3,157.0	2,902.0	-8.1%	3,006.3	3,408.4	-11.8%
Natural Gas (mil. of cu. ft.)	18,740.2	19,933.4	6.4%	20,557.6	18,958.8	8.4%
Coal (thous. short tons)	919.0	1,501.0	63.3%	1,002.6	1,063.3	-5.7%
Tourism/Travel						
Air Passengers (total no. on and off) (S.L. Int'l Airport)	997,799	1,017,714	2.0%	842,472	802,639	5.0%
Highway Traffic Count Across State Lines	53,409	51,569	-3.4%	37,981	35,850	5.9%
Transient Room Taxes (thous. of dol.)	709.6	263.6	-62.9%	439.4	451.7	-2.7%
Visits, State, Nat'l. Parks, Monuments (thous.)	2,101.7	2,113.9	0.6%	1,028.5	999.9	2.9%
Utilities						
Telephone Lines in Service (Mt. Bell) (Residential)	469,453	478,165	1.9%	477,692	468,930	1.9%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	168,474	176,545	4.8%	173,536	166,952	3.9%
Electric Customers (Residential)	458,309	476,689	4.0%	469,704	NA	NA
Electric Customers (Commercial)	45,521	46,082	1.2%	46,023	NA	NA
Natural Gas Customers (Residential & Commercial)	430,326	441,846	2.7%	443,328	431,305	2.8%
Natural Gas Customers (Industrial)	573	550	-4.0%	560	568	-1.4%

Utah Business Statistics

UTAH DATA	August 1986	August 1987	% Change From Year Ago	12 Month Average This Year	12 Month Average Last Year	12 Month Average % Change
Davis County						
Non-Ag. Employment (thous.)	53.8[r]	54.1[fo]	0.6%	53.3	53.3	0.0%
Unemployment Rate	4.4[r]	5.2	18.2%	5.2	4.1	28.2%
Auth. Permit Construction (thous. of dol.)	23,535.2	14,995.8	-36.3%	13,580.2	16,620.7	-18.3%
New Dwelling Units (no.)	388	113	-70.9%	107	230	-53.5%
Postal Receipts (thous. of dol.)	326.4	301.0	-7.8%	NA	324.9	NA
Electric Customers (Residential)	45,223	47,162	4.3%	46,713	40,882	14.3%
Electric Customers (Commercial)	3,343	3,238	-3.1%	3,250	3,023	7.5%
Natural Gas Customers (Residential)	46,087	48,483	5.2%	48,165	45,550	5.7%
Natural Gas Customers (Industrial)	51	52	2.0%	52	50	3.8%
Telephone Lines in Service (Mt. Bell)(Residential)	53,411	55,382	3.7%	54,491	51,755	5.3%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	10,209	10,707	4.9%	10,405	9,940	4.7%
Salt Lake County						
Non-Ag. Employment (thous.)	330[r]	335.5[fo]	1.7%	334.4	328.7	1.7%
Unemployment Rate	4.8[r]	5.3	10.4%	5.5	5.5	-0.5%
Auth. Permit Construction (thous. of dol.)	65,040.5	40,130.1	-38.3%	45,876.4	62,275.1	-26.3%
New Dwelling Units (no.)	461	208	-54.9%	307.0	579.8	-47.1%
Postal Receipts (thous. of dol.)	6,842	6,449.8	-5.7%	7,017.0	7,437.4	-5.7%
Electric Customers (Residential)	230,145	235,258	2.2%	234,962	229,105	2.6%
Electric Customers (Commercial)	19,385	19,804	2.2%	19,729	19,077	3.4%
Natural Gas Customers (Residential)	209,983	214,247	2.0%	216,184	210,325	2.8%
Natural Gas Customers (Industrial)	256	235	-8.2%	246	258	-4.7%
Telephone Lines in Service (Mt. Bell)(Residential)	222,680	226,538	1.7%	225,605	220,831	2.2%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	107,914	110,396	2.3%	109,344	107,208	2.0%
Utah County						
Non-Ag. Employment (thous.)	69.8[r]	70.8[fo]	1.4%	72.1	71.8	0.3%
Unemployment Rate	6.9[r]	6.9	0.0%	7.5	6.1	21.9%
Auth. Permit Construction (thous. of dol.)	6,299.6[r]	13,350.0	111.9%	12,034.1	10,379.9	15.9%
New Dwelling Units (no.)	60	79	31.7%	98	101	-3.1%
Postal Receipts (thous. of dol.)	837.6	839.0	0.2%	928.3	916.7	1.3%
Electric Customers (Residential)	50,032	57,761	15.4%	51,000	NA	NA
Electric Customers (Commercial)	6,275	6,363	1.4%	6,341	NA	NA
Natural Gas Customers (Residential)	58,927	59,799	1.5%	60,113	59,242	1.5%
Natural Gas Customers (Industrial)	73	68	-6.8%	71	71	0.5%
Telephone Lines in Service (Mt. Bell)(Residential)	59,976	61,048	1.8%	62,467	61,811	1.1%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	15,940	18,591	16.6%	17,729	15,562	13.9%
Weber County						
Non-Ag. Employment (thous.)	60.8[r]	61.3[fo]	0.8%	60.3	59.0	2.2%
Unemployment Rate	5.8[r]	6.9	19.0%	7.1	5.8	22.3%
Auth. Permit Construction (thous. of dol.)	19,781.6	15,691.9	-20.7%	8,887.6	9,359.8	-5.0%
New Dwelling Units (no.)	92	96	4.3%	75.1	98.9	-24.1%
Postal Receipts (thous. of dol.)	614.4	572.3	-6.9%	619.1	610.0	1.5%
Electric Customers (Residential)	51,790	52,740	1.8%	52,550	51,409	2.2%
Electric Customers (Commercial)	4,745	4,863	2.5%	4,805	4,708	2.1%
Natural Gas Customers (Residential)	47,466	48,387	1.9%	48,802	47,648	2.4%
Natural Gas Customers (Industrial)	87	85	-2.3%	85	87	-1.9%
Telephone Lines in Service (Mt. Bell)(Residential)	45,541	45,983	1.0%	45,771	45,301	1.0%
Telephone Lines in Service (Mt. Bell)(Nonresidential)	10,624	11,109	4.6%	10,792	10,546	2.3%

[r] Revised [na] Not available [fo] Forecast

Sources:

Personal Income:	Bureau of Economic Analysis, U.S. Department of Commerce
New Corporations:	Utah Secretary of State
New Car and Truck Sales:	Utah State Tax Commission, Economic and Statistical Unit
Agriculture:	U.S. Department of Agriculture, Agriculture, Utah; Utah Crop and Livestock Reporting Service
Construction Data:	F.W. Dodge Statistics and Utah Construction Report, Bureau of Economic and Business Research
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Natural Gas Production:	Utah Department of Oil, Gas, and Mining
Coal Production:	U.S. Department of Energy
Air Passengers:	Salt Lake City International Airport, Statistics Division
Highway Traffic Count:	Utah Department of Transportation
Visits to State and National Parks and Monuments:	U. S. Forest Service, Utah State Parks and Recreation Department
Utilities Data:	Cooperating Utah utility companies
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Footnotes:

1 Obtained from F.W. Dodge Statistics
2 Obtained from Utah Construction Report
3 Includes services by nonprofit and religious institutions
4 Includes public schools and college institutions

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NATIONAL DATA	August 1986	August 1987	% Change From Year Ago	12 Month Average This Year	12 Month Average Last Year	12 Month Average % Change
U.S. Gross National Product (seasonally adjusted) (bil.) (qtly.)	4,240.7r	4,520.5	6.6%	4,377.2	4,166.2	5.1%
Total Personal Income (seasonally adjusted) (bil. of dol.)	3,552.9r	3,756.1	5.7%	3,662.8	3,469.5	5.6%
Industrial Production Indexes (seasonally adjusted) (1977=100)	124.9r	131.0	4.9%	127.4	124.7	2.2%
Total Non-Farm Bus. Expend. on New Plants & Equip. (bil.) (qtly.)	375.5r	398.0	6.0%	382.1	382.9	-0.2%
Index of Leading Indicators (1967=100)	180.3r	192.7	6.9%	186.8	175.6	6.4%
Price Indexes						
Consumer Price Indexes (not seasonally adjusted) (1967=100)						
CPI-U (All Urban Consumers) All Items	328.6	342.7	4.3%	335.4	326.8	2.6%
CPI-U (All Urban Consumers) Food & Beverages	314.6	325.4	3.4%	320.9	315.1	1.8%
CPI-U (All Urban Consumers) Housing	362.4	374.9	3.4%	366.8	357.6	2.6%
CPI-U (All Urban Consumers) Transportation	334.7	320.2	-4.3%	310.5	316.5	-1.9%
CPI-U (All Urban Consumers) Medical Care	437.5	466.1	6.5%	453.2	422.9	7.2%
CPI-U (All Urban Consumers) Energy	358.6	388.9	8.4%	362.2	396.8	-8.7%
Producer Price Index (not seasonally adjusted) (1967=100)						
Producer Price Index, All Finished Goods	288.3	297.2	3.1%	293.2	291.4	0.6%
GNP Price Deflator (1982=100) (qtly.)	114.7r	117.9	2.8%	116.2	113.2	2.7%
Civilian Employment (seasonally adjusted)						
Total Civilian Labor Force (mil.)	118.1	120.0	1.6%	119.2	117.0	1.8%
Total Civilian Employment (mil.)	110.1	113.0	2.6%	111.4	108.8	2.4%
Unemployment Rate	6.8r	6.0	-11.8%	6.5	7.0	-7.5%
Construction						
Total Construction (mil. of dol.)	20,489.4	23,914.4	16.7%	20,349.4	18,942.4	7.4%
Residential	10,145.0	10,919.2	7.6%	9,766.6	9,246.3	5.6%
Nonresidential	6,788.1	8,357.8	23.1%	6,859.3	6,354.3	7.9%
Non-Building	3,556.3	4,637.4	30.4%	3,698.5	3,341.8	10.7%
New Dwelling Units (no.)	144,135	141,461	-1.9%	132,087	141,335	-6.5%
Interest Rates						
Short Term (3-month Treasury bill rate)	5.57	6.00	7.7%	5.57	6.58	-15.4%
Long Term (30-year Treasury bond yields)	7.72	8.97	16.2%	8.16	8.92	-8.5%
Prime Rates Charged by Banks on Short-term Business Loans (ave.)	7.90	8.25	4.4%	7.76	9.00	-13.8%
Mortgage Rates (new homes)	9.84	9.01	-8.4%	9.14	10.17	-10.1%

Sources: Business Conditions Digest, U.S. Department of Commerce: U.S. Gross National Product, Total National Personal Income, Industrial Production Indexes, Total Business Expenditures for New Plant and Equipment, Index of Leading Indicators, GNP Price Deflator, National Employment Data, Interest Rates.

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Chase N. Peterson, *President, University of Utah*
Ivor E. Bradley, *Dean, Graduate School of Business*

BUREAU OF ECONOMIC AND BUSINESS RESEARCH

R. Thayne Robson, Director
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